

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
HOSPITAL DISTRICT #1
OF CRAWFORD COUNTY, KANSAS
DECEMBER 31, 2017 AND 2016

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Trustees
Hospital District #1 of Crawford County, Kansas

We have audited the accompanying financial statements of the business type activity of Hospital District #1 of Crawford County, Kansas (Hospital), as of and for the years ended December 31, 2017 and 2016, which collectively comprise the Hospital's basic financial statements as listed in the table of contents and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. These standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

The 2017 and 2016 financial statements referred to above do not include financial data of the Hospital District #1 Crawford County Foundation (Foundation), a component unit of the Hospital based on the nature and significance of the relationship between the Hospital and the Foundation. Although the Hospital does not have ownership of the assets of the Foundation, the financial data of the Foundation should be included in order to conform with accounting principles generally accepted in the United States of America. If the omitted component unit had been included for the years ended December 31, 2017 and 2016, the component unit's assets and net assets would be approximately \$230,000 and \$198,000, respectively; and there would be an increase in component unit net assets of approximately \$32,000 and \$4,000 in 2017 and 2016, respectively.

Qualified Opinion

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity of Hospital District #1 of Crawford County, Kansas, as of December 31, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The Hospital has omitted a management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Hospital District #1 of Crawford County, Kansas, basic financial statements as a whole. The supplementary information presented on pages 21 through 25 is for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole, except that no opinion is expressed as to the adequacy of insurance coverage.

The statistical data shown on page 26 is presented solely as supplementary information. This data has been summarized from Hospital records and was not subjected to the audit procedures applied in the audit of the financial statements. Accordingly, we do not express an opinion on such data.

Wardlaw, Noel Nelson & Johnson 22C

Topeka, Kansas
April 10, 2018

FINANCIAL STATEMENTS

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS
STATEMENTS OF NET POSITION
December 31,

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and invested cash	\$ 3,190,636	\$ 3,145,121
Patient accounts receivable, net of allowance for doubtful accounts of \$700,000 in 2017 and \$790,000 in 2016 (Note A4)	2,295,278	2,252,238
Accounts receivable - other	240,952	202,730
Estimated settlements due from third-party payors (Note B)	233,000	433,000
Inventories (Note A5)	478,822	472,794
Prepaid expenses	355,303	370,431
Assets whose use is limited - required for current liabilities (Note D)	<u>98,520</u>	<u>325,736</u>
Total current assets	<u>6,892,511</u>	<u>7,202,050</u>
ASSETS WHOSE USE IS LIMITED		
By Board of Trustees (Note C)	245,549	43,232
By donor for capital equipment (Note C)	975,000	975,000
By bond resolution (Note D)	<u>902,520</u>	<u>1,176,162</u>
	2,123,069	2,194,394
Less amounts required for current liabilities	<u>98,520</u>	<u>325,736</u>
Noncurrent assets whose use is limited	<u>2,024,549</u>	<u>1,868,658</u>
CAPITAL ASSETS, NET (Notes A6, E, F, and G)	<u>8,566,465</u>	<u>9,851,420</u>
OTHER ASSETS		
Other investments, at cost	<u>35,100</u>	<u>35,100</u>
Total assets	<u>17,518,625</u>	<u>18,957,228</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows on advance refunding	<u>610,560</u>	<u> </u>
Total assets and deferred outflows of resources	<u>\$18,129,185</u>	<u>\$18,957,228</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION

	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES		
Current portion of capital lease obligations (Note F)	\$ 137,684	\$ 204,386
Current portion of long-term debt (Note G)	427,159	515,558
Accounts payable and other accrued liabilities	407,432	423,631
Accrued payroll and related deductions	521,502	507,423
Accrued paid time off (Note A10)	405,188	459,219
Accrued interest payable	<u>27,104</u>	<u>176,105</u>
Total current liabilities	<u>1,926,069</u>	<u>2,286,322</u>
CAPITAL LEASE OBLIGATIONS, excluding current portion (Note F)	<u>261,915</u>	<u>399,599</u>
LONG-TERM DEBT, less current portion (Note G)	<u>11,550,383</u>	<u>11,056,960</u>
Total liabilities	<u>13,738,367</u>	<u>13,742,881</u>
NET POSITION (Note A9)		
Invested in capital assets, net of related debt	(3,810,675)	(2,325,083)
Restricted for capital equipment	975,000	975,000
Restricted for debt service (Note D)	902,520	1,176,162
Unrestricted	<u>6,323,973</u>	<u>5,388,268</u>
Total net position	<u>4,390,818</u>	<u>5,214,347</u>
Total liabilities and net position	<u>\$18,129,185</u>	<u>\$18,957,228</u>

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
Year ended December 31,

	<u>2017</u>	<u>2016</u>
Operating revenues		
Net patient service revenue	\$17,250,801	\$18,159,116
Other	<u>926,642</u>	<u>894,956</u>
Total operating revenues	<u>18,177,443</u>	<u>19,054,072</u>
Operating expenses		
Salaries and wages	9,463,944	9,616,593
Employee benefits	2,251,014	2,270,302
Purchased services and professional fees	1,749,476	2,015,321
Leases and rentals	166,727	178,677
Other supplies and expenses	3,351,423	3,580,720
Depreciation and amortization	<u>1,462,646</u>	<u>1,458,868</u>
Total operating expenses	<u>18,445,230</u>	<u>19,120,481</u>
Operating loss	<u>(267,787)</u>	<u>(66,409)</u>
Nonoperating revenues (expenses)		
Investment income	41,242	33,624
Noncapital contributions	600	
Ad valorem taxes	201,636	103,724
Interest expense	(806,688)	(697,577)
Gain (loss) on disposal of capital assets	<u>(14,915)</u>	<u>28,003</u>
Nonoperating revenues (expenses), net	<u>(578,125)</u>	<u>(532,226)</u>
Expenses in excess of revenues before capital contributions	(845,912)	(598,635)
Capital contributions	<u>22,383</u>	<u>1,007,523</u>
Increase (decrease) in net position	(823,529)	408,888
Net position at beginning of year	<u>5,214,347</u>	<u>4,805,459</u>
Net position at end of year	<u>\$ 4,390,818</u>	<u>\$ 5,214,347</u>

The accompanying notes are an integral part of these statements.

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS
STATEMENTS OF CASH FLOWS
Year ended December 31,

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$17,407,761	\$17,628,056
Payments to or on behalf of employees	(11,754,910)	(11,730,782)
Payments for supplies and services	(5,274,725)	(5,808,062)
Other receipts and payments	<u>888,420</u>	<u>831,911</u>
Net cash provided by operating activities	<u>1,266,546</u>	<u>921,123</u>
Cash flows from noncapital financing activities		
Ad valorem taxes	201,636	103,724
Noncapital contributions	<u>600</u>	<u></u>
Net cash provided by noncapital financing activities	<u>202,236</u>	<u>103,724</u>
Cash flows from capital and related financing activities		
Purchases of capital assets	(376,309)	(782,989)
Proceeds from disposals of equipment	50	28,003
Capital lease obligations incurred		600,000
Repayments on capital lease obligations	(204,386)	(202,824)
Repayment of long-term debt and lines-of credit	(8,984,980)	(3,342,243)
Proceeds from issuance of long-term debt	8,775,000	2,605,000
Receipt of contributions restricted for capital assets	22,383	1,007,523
Payment of bond issuance costs	(219,511)	
Interest paid on long-term debt	<u>(548,081)</u>	<u>(591,154)</u>
Net cash used by capital and related financing activities	<u>(1,535,834)</u>	<u>(678,684)</u>
Cash flows from investing activities		
Change in assets whose use is limited by Board of Trustees	(202,317)	86,423
Change in assets whose use is limited by donor restriction		(975,000)
Change in assets whose use is limited by bond resolution	273,642	301,305
Investment income	<u>41,242</u>	<u>33,624</u>
Net cash provided (used) by investing activities	<u>112,567</u>	<u>(553,648)</u>
Change in cash and cash equivalents	45,515	(207,485)
Cash and cash equivalents at beginning of year	<u>3,145,121</u>	<u>3,352,606</u>
Cash and cash equivalents at end of year	<u>\$ 3,190,636</u>	<u>\$ 3,145,121</u>

The accompanying notes are an integral part of these statements.

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

STATEMENTS OF CASH FLOWS - CONTINUED

Year ended December 31,

	<u>2017</u>	<u>2016</u>
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (267,787)	\$ (66,409)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation and amortization	1,462,646	1,458,868
Provision for bad debts	1,143,509	1,113,467
Changes in		
Patient receivables	(1,186,549)	(1,211,527)
Other receivables	(38,222)	(63,045)
Estimated settlements due to/from third-party payors	200,000	(433,000)
Inventories	(6,028)	(19,599)
Prepaid expenses	15,128	(34,063)
Accounts payable and accrued expenses	(16,199)	20,318
Accrued payroll and related deductions	14,079	159,782
Accrued paid time off	(54,031)	(3,669)
Net cash provided by operating activities	<u>\$ 1,266,546</u>	<u>\$ 921,123</u>

The accompanying notes are an integral part of these statements.

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE A - SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies of Hospital District #1 of Crawford County, Kansas, consistently applied in the preparation of the accompanying financial statements follows.

1. Financial reporting entity

Hospital District #1 of Crawford County, Kansas (Hospital), is a municipal corporation operating an acute-care hospital located in Girard, Kansas, with a licensed bed capacity of 25 acute care beds and 10 geriatric psych beds. The Hospital also provides outpatient and home health service to the community and surrounding areas. The Hospital is governed by an elected five-member Board of Trustees.

2. Basis of accounting

The Hospital uses enterprise fund accounting whereby revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Patient accounts receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients, and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions.

5. Inventories

Inventories are stated at cost as determined using the average cost method.

6. Capital assets

Capital asset acquisitions in excess of \$5,000 (including assets recorded as capital leases) are capitalized and stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

7. Costs of borrowing

Original issue premiums and discounts and deferred outflows on advance refunding associated with issuance of long-term debt are amortized using the principal outstanding method over the term of the related debt.

8. Deferred outflows of resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then.

9. Net position

The net position of the Hospital is presented in the following four components:

- Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets.
- Restricted for debt service - Restricted net position is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital.
- Restricted expendable net position - Restricted expendable net position is noncapital net position that must be used for the purchase of capital assets in accordance with donor restrictions.
- Unrestricted - Unrestricted net position is the remaining net position that does not meet the definitions of the other three components of net position.

10. Compensated absences

Hospital policies permit most employees to accumulate benefits (including paid time away from work to use for personal business, vacation, illness, and holidays) that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

11. Operating revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

health care services, the Hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

12. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, the provision for bad debts, and contractual adjustments, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

13. Charity care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charity care provided by the Hospital is disclosed in Note B.

14. Ad valorem taxes

The Hospital receives financial support from ad valorem taxes. The ad valorem taxes are used for the purchase of capital assets. Ad valorem taxes are assessed in November of each year and are available for use by the Hospital in the following year.

15. Income taxes

The Hospital is classified as a political subdivision and is under Section 115 of the Internal Revenue Code and is exempt from federal taxes on related income pursuant to Section 115 and is not required to file federal income tax returns.

16. Cash and cash equivalents

All cash and invested cash, excluding any amounts included in assets whose use is limited, are considered to be cash equivalents.

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

NOTE B - REIMBURSEMENT PROGRAMS

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the statements of net position as estimated third-party payors settlements consist of management's estimate of the differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient and outpatient acute care services and skilled nursing swing-bed services rendered to Medicare program beneficiaries are paid under the provisions applicable to critical access hospitals. Inpatient geriatric psychology services are paid based on prospectively determined per diem rates. Home health and other physician services rendered to Medicare beneficiaries are paid based on prospectively determined rates.

The Hospital is paid for cost reimbursable items at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2016.

Medicaid - Services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital receives a hospital-specific add-on percentage to each claim based on previously filed cost reports.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross-Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

A summary of gross and net patient service revenue follows:

	<u>2017</u>	<u>2016</u>
Gross patient service revenue	\$ 33,705,072	\$ 35,477,851
Adjustments to patient service revenue		
Third-party contractual adjustments,		
discounts, and allowances	(15,197,104)	(16,110,910)
Provision for bad debts	(1,143,509)	(1,113,467)
Charity care	(113,658)	(94,358)
Net patient service revenue	<u>\$ 17,250,801</u>	<u>\$ 18,159,116</u>

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

NOTE B - REIMBURSEMENT PROGRAMS - Continued

The Hospital maintains records to identify and monitor the level of charity care it provides. The amount of charges foregone for services and supplies furnished under its charity care policy for 2017 and 2016, was \$113,658 and \$94,358, respectively. The Hospital estimates that the cost of providing charity care, based on overall cost-to-charge ratios obtained from the Hospital's cost reports, was \$59,791 and \$47,139 for 2017 and 2016, respectively.

The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. These provisions of ARRA are intended to promote the adoption and meaningful use of interoperable health information technology and qualified EHR technology.

The Hospital recognizes revenue for EHR incentives when it has reasonable assurance that it has demonstrated meaningful use of certified EHR technology for the applicable period and complied with the reporting conditions to receive the payment. The demonstration of meaningful use is based upon meeting a series of objectives and varies between hospital facilities and physician practices and between the Medicare and Medicaid programs. Additionally, meeting the objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by Centers for Medicare & Medicaid Services. The Hospital recognized \$172,313 of revenue from Medicaid related to EHR incentives in 2017. This amount is included with other operating revenues on the statement of revenue, expenses, and changes in net position.

The Hospital incurs both capital expenditures and operating expenses in connection with the implementation of its EHR initiatives. The amounts and timing of these expenditures do not directly correlate with the timing of the Hospital's recognition of EHR incentives as revenue.

NOTE C - ASSETS WHOSE USE IS LIMITED BY BOARD OF TRUSTEES AND DONORS

Assets whose use is limited by Board of Trustees and donors consist of invested cash and certificates of deposit which are to be used for replacement of capital assets or for the purchase of additional capital assets. The funds designated by the Board may be used for other purposes by action of the Board of Trustees.

NOTE D - ASSETS WHOSE USE IS LIMITED BY BOND RESOLUTION

Assets whose use is limited by bond resolution at December 31, 2017 and 2016, consist of required accounts to be maintained by the Hospital under the terms of the Crawford County, Kansas Public Building Commission Revenue Bonds, Series 2009, Refunding Revenue Bonds, Series 2016, and Refunding Revenue Bonds, Series 2017, resolutions (see Note G).

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

NOTE D - ASSETS WHOSE USE IS LIMITED BY BOND RESOLUTION - Continued

Funds held in these accounts consist of invested cash and are summarized as follows:

	<u>2017</u>	<u>2016</u>
Debt service account - Series 2009	\$ -	\$ 282,923
Debt service reserve account - Series 2009		850,426
Debt service account - Series 2016 and 2017	46,713	42,813
Debt service reserve fund - Series 2017	804,000	
Cost of issuance fund - Series 2017	<u>51,807</u>	
	902,520	1,176,162
Less amounts required for current liabilities	<u>98,520</u>	<u>325,736</u>
	<u>\$ 804,000</u>	<u>\$ 850,426</u>

Under the terms of the Series 2017 bond resolution, the debt service account is to be used for payment of principal and interest on the bonds. The debt service reserve account is to be used to prevent any default in the payment of principal and interest on the bonds.

NOTE E - CAPITAL ASSETS

Hospital capital asset additions, retirements, and balances are as follows:

	<u>2017</u>		
	<u>Beginning balance</u>	<u>Additions/transfers</u>	<u>Ending balance</u>
Land and land improvements	\$ 907,673	\$ -	\$ 870,184
Buildings	10,067,238		9,994,156
Fixed equipment	7,207,675	9,575	7,181,773
Major movable equipment	7,806,630	156,187	6,937,788
Leasehold improvements	133,366		133,366
Projects in progress	<u>66,781</u>	<u>26,894</u>	<u>93,675</u>
Totals at historical cost	<u>26,189,363</u>	<u>192,656</u>	<u>(1,171,077)</u>
Less accumulated depreciation and amortization			
Buildings	6,093,343	507,741	6,528,716
Fixed equipment	3,528,466	351,052	3,841,387
Major movable equipment	6,112,132	553,002	5,654,355
Leasehold improvements	<u>604,002</u>	<u>50,851</u>	<u>620,019</u>
	<u>16,337,943</u>	<u>1,462,646</u>	<u>1,156,112</u>
Capital assets, net	<u>\$ 9,851,420</u>	<u>\$ (1,269,990)</u>	<u>\$ 8,566,465</u>

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

NOTE E - CAPITAL ASSETS - Continued

		2016		
	<u>Beginning balance</u>	<u>Additions/ transfers</u>	<u>Retirements</u>	<u>Ending balance</u>
Land and improvements	\$ 907,673	\$ -	\$ -	\$ 907,673
Buildings	10,067,238			10,067,238
Fixed equipment	7,207,675			7,207,675
Major movable equipment	7,393,493	812,126	(398,989)	7,806,630
Leasehold improvements	133,366			133,366
Projects in progress	241,574	(174,793)		66,781
Totals at historical cost	<u>25,951,019</u>	<u>637,333</u>	<u>(398,989)</u>	<u>26,189,363</u>
Less accumulated depreciation and amortization				
Buildings	5,581,785	511,558		6,093,343
Fixed equipment	3,177,028	351,438		3,528,466
Major movable equipment	5,967,300	543,821	398,989	6,112,132
Leasehold improvements	551,951	52,051		604,002
	<u>15,278,064</u>	<u>1,458,868</u>	<u>398,989</u>	<u>16,337,943</u>
Capital assets, net	<u>\$ 10,672,955</u>	<u>\$ (821,535)</u>	<u>\$ -</u>	<u>\$ 9,851,420</u>

NOTE F - LEASES

The Hospital leases certain property and equipment under long-term lease arrangements. Capital assets and accumulated depreciation and amortization include the following amounts for leases that have been capitalized:

	<u>2017</u>
Capital assets	\$ 654,339
Less accumulated depreciation and amortization	<u>200,592</u>
	<u>\$ 453,747</u>

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

NOTE F - LEASES - Continued

The following is a schedule of future minimum lease payments under capital leases:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 137,684	\$ 11,088	\$ 148,772
2019	123,815	6,967	130,782
2020	128,079	2,703	130,782
2021	10,021	28	10,049
	<u>\$ 399,599</u>	<u>\$ 20,786</u>	420,385
Less interest			<u>20,786</u>
			399,599
Less current portion			<u>137,684</u>
			<u>\$ 261,915</u>

The following is a summary of changes in capital lease obligations:

Principal outstanding at January 1, 2016	\$ 206,809
2016 capital lease obligations incurred	600,000
2016 payments on capital lease obligations	<u>(202,824)</u>
Principal outstanding at December 31, 2016	603,985
2017 payments on capital lease obligations	<u>(204,386)</u>
Principal outstanding at December 31, 2017	<u>\$ 399,599</u>

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. Total rental expense under operating leases in 2017 and 2016, was approximately \$167,000 and \$179,000, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2017, that have initial or remaining lease terms in excess of one year:

2018	\$ 109,308
2019	98,116
2020	92,520
2021	<u>15,420</u>
	<u>\$ 315,364</u>

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

NOTE G - LONG-TERM DEBT

Hospital long-term debt consists of the following:

	<u>2017</u>	<u>2016</u>
0% Note payable to Heartland Rural Electric Coop, issued in September 2009, in the original amount of \$600,000, with an administrative fee of 1% of the unpaid balance due annually starting at the inception of the note due to Heartland Rural Electric Coop, and an administrative fee of 1% of the unpaid principal balance due annually starting at the inception of the note due to a local bank, monthly principal payments of \$5,556 through August 30, 2019	\$ 111,111	\$ 177,777
4.00% - 5.375% Crawford County, Kansas Public Building Commission Revenue Bonds, Series 2009, issued on September 9, 2009, in the original amount of \$13,855,000		8,935,000
Crawford County, Kansas Public Building Commission Refunding Revenue Bonds, Series 2016, issued on March 30, 2016, in the original amount of \$2,605,000 variable interest rate of 2.93%	2,455,532	2,509,424
Crawford County, Kansas Public Building Commission Refunding Revenue Bonds, Series 2017, issued on December 28, 2017, in the original amount of \$8,775,000, interest rate of 4.00%	8,775,000	
	11,341,643	11,622,201
Net unamortized discount		(49,683)
Net unamortized bond premium	635,899	
Less current maturities	(427,159)	(515,558)
	<u>\$11,550,383</u>	<u>\$11,056,960</u>

The Series 2009 revenue bonds were due in annual installments of varying amounts with final maturity on September 1, 2032. Interest was payable on March 1 and September 1 of each year.

The Series 2016 refunding revenue bonds were issued for the purpose of refunding the Series 2009B bonds. The Series 2016 refunding revenue bonds are due in annual installments of varying amounts with final maturity on September 1, 2034. Interest is payable on September 1 of each year. The initial interest rate on the Series 2016 bonds is 2.93 percent. The rate will be adjusted on September 1, 2025, to the daily yield on 10-year U.S. Treasury obligations, plus 100 basis points, provided that such rate shall not exceed the maximum legal limit for interest rates under K.S.A. 10-1009, as amended.

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

NOTE G - LONG-TERM DEBT - Continued

On December 28, 2017, the Crawford County, Kansas Public Building Commission issued \$8,775,000 in Refunding Revenue Bonds, Series 2017, (the 2017 bonds) on behalf of the Hospital. The proceeds of the 2017 bonds were used to (1) pay the costs related to issuance of the 2017 bonds and (2) advance refund \$8,540,000 of the 2009-A bonds maturing during the years from 2018 through 2032 by making an irrevocable deposit with a trustee. The trustee used that deposit to purchase direct obligations of the United States of America that will mature and pay interest in amounts and at times that will provide for payment of interest on the refunded 2009-A bonds through September 1, 2019, and to redeem and pay the \$8,540,000 of refunded 2009-A bonds on that date at redemption prices of 100 percent and 102 percent.

The refunding transaction decreased the total amount of future debt service requirements by \$720,465. This resulted in an economic gain of \$639,730. As a result of the transaction, a deferred refunding loss of \$610,560 was recognized for the difference between the book value of the refunded debt and the amount required to extinguish the debt. This deferred loss is reported as a deferred outflow of resources on the statement of net position.

The following is a schedule of future maturities of long-term debt:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 427,159	\$ 312,094	\$ 739,253
2019	566,585	410,987	977,572
2020	538,648	389,991	928,639
2021	560,581	368,858	929,439
2022	582,381	347,058	929,439
2023 - 2027	3,275,639	1,377,156	4,652,795
2028 - 2032	3,964,230	687,365	4,651,595
2033 - 2034	1,426,420	63,872	1,490,292
	<u>\$11,341,643</u>	<u>\$ 3,957,381</u>	<u>\$15,299,024</u>

The following is a summary of changes in long-term debt:

Principal outstanding at January 1, 2016	\$ 12,359,444
2016 payments on long-term debt	(3,342,243)
2016 long-term debt obligations incurred	<u>2,605,000</u>
Principal outstanding at December 31, 2016	11,622,201
2017 payments on long-term debt	(9,055,558)
2017 long-term debt obligations incurred	<u>8,775,000</u>
Principal outstanding at December 31, 2017	<u>\$11,341,643</u>

The provisions of the 2016 and 2017 Bond Indentures contain covenants which, among other things, require the segregation of funds for payment of principal and interest on the bonds (see Note D) and require the establishment and maintenance of charge rates for Hospital services at such levels so that net revenues available for debt service of the Hospital will not be less than 115 percent of the annual debt service requirements on the Hospital's parity debt obligations.

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

NOTE H - LINE OF CREDIT

The Hospital has a \$111,111 available line of credit at December 31, 2017, with a local bank in connection with the Heartland Rural Electric Coop note payable (see Note G). No amounts have been drawn against this line of credit as of December 31, 2017.

NOTE I - RISK MANAGEMENT

The Hospital is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. All coverage is on a claims-made basis. The above policies are renewed through March 27, 2018. The Hospital intends to renew this coverage on that date and is aware of no reason why such coverage would be denied at that time.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks.

NOTE J - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, the State Treasurer's municipal investment pool, and U.S. Treasury bills and notes. Also, statutes generally require that financial institutions pledge securities with a market value equal to total deposits, except for monies acquired through the receipt of grants, donations, bequests, and gifts, in excess of F.D.I.C. coverage at any given time and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, the Federal Home Loan Bank, or the Kansas State Treasurer.

The carrying amount of the Hospital's deposits with financial institutions was \$4,456,651 and the bank balances were \$4,523,307 at December 31, 2017. The bank balances are categorized as follows at December 31, 2017:

Amount insured by the F.D.I.C., or collateralized with the Hospital's name	\$ 706,817
Uncollateralized (amount collateralized with securities held in safekeeping by an authorized depository other than the pledging financial institution's trust department, but not in the Hospital's name)	<u>3,816,490</u>
	<u>\$ 4,523,307</u>

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2017 and 2016

NOTE K - DEFINED CONTRIBUTION PENSION PLAN

The Hospital sponsors a defined contribution pension plan that provides pension benefits for substantially all of its employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is administered by a third-party insurance company and can be amended by the Board of Trustees. The Hospital matched employee contributions up to 4 percent of compensation excluding bonuses until July 1, 2017. Effective July 1, 2017, the Hospital matched employee contributions up to 3 percent of eligible employee compensation. The employees can contribute up to the maximum allowed by the Internal Revenue Service. The employees are fully vested in Hospital contributions after five years of service.

For the years ended December 31, 2017 and 2016, the Hospital and covered employees made contributions to the plan as follows:

	<u>2017</u>	<u>2016</u>
Hospital contributions	\$ 179,944	\$ 237,624
Employee contributions	401,546	393,881

NOTE L - BUDGETARY COMPARISON

The Hospital legally adopted a budget for capital fund expenditures for the years ended December 31, 2017 and 2016. Actual capital fund expenditures for the year ended December 31, 2017, were \$192,656 as compared to the legally adopted budgeted expenditures of \$368,403. Actual capital fund expenditures for the year ended December 31, 2016, were \$637,333 as compared to the legally adopted budgeted expenditures of \$263,722.

NOTE M - RELATED PARTY TRANSACTIONS

Hospital District #1 Crawford County Foundation (Foundation) was established in September 1999. The Foundation's Articles of Incorporation provide that its funds are for the benefit of the Hospital. The Foundation donated \$25,266 and \$252,715 in capital contributions to the Hospital during the years ended December 31, 2017 and 2016, respectively.

The Hospital participates in the 340(B) outpatient drug program. One of the pharmacies that the Hospital utilizes for the program is owned by a member of the Hospital's Board of Trustees. Approximately \$157,000 and \$202,000 was recognized as expense related to pharmacy services provided by the pharmacy in 2017 and 2016, respectively.

NOTE N - SUBSEQUENT EVENTS

The Hospital has evaluated subsequent events through the date of the independent certified public accountants' report, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

NET PATIENT SERVICE REVENUE

Year ended December 31,

	2017			2016
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
Acute care room	\$ 761,514	\$ 441,406	\$ 1,202,920	\$ 1,365,410
Swing-bed room	251,803		251,803	217,510
Intensive care room	176,588		176,588	283,785
Geriatric psych	3,132,143	279,429	3,411,572	3,581,192
Operating room	566,315	2,644,596	3,210,911	3,764,250
Orthopedic		189,713	189,713	195,209
Anesthesiology	58,405	447,309	505,714	548,290
Radiology	519,874	5,331,830	5,851,704	5,600,199
Laboratory	681,728	5,198,882	5,880,610	6,033,410
Respiratory therapy	88,531	52,518	141,049	203,444
Physical therapy	260,280	897,731	1,158,011	1,291,045
Occupational therapy	188,519	211,874	400,393	381,348
Speech therapy	24,772	4,169	28,941	30,050
Pulmonary Rehab		210,082	210,082	109,404
Medical supplies	155,536	404,348	559,884	765,813
Pharmacy	1,545,588	1,342,010	2,887,598	2,934,380
Electrocardiology	67,014	721,273	788,287	701,813
Emergency room	4,431	2,513,507	2,517,938	2,716,952
Home health		678,436	678,436	733,599
Physician clinics	347,193	3,270,260	3,617,453	3,986,523
Community outreach		35,465	35,465	34,225
Gross patient service revenue	<u>\$ 8,830,234</u>	<u>\$ 24,874,838</u>	33,705,072	35,477,851
Contractual adjustments, discounts, and allowances				
Medicare			(8,067,726)	(8,391,890)
Medicaid			(2,321,073)	(2,386,916)
Blue Cross			(3,068,735)	(3,315,144)
Other			(1,739,570)	(2,016,960)
Provision for bad debts			(1,143,509)	(1,113,467)
Charity care			(113,658)	(94,358)
Net patient service revenue			<u>\$ 17,250,801</u>	<u>\$ 18,159,116</u>

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

OTHER REVENUE

Year ended December 31,

	<u>2017</u>	<u>2016</u>
Clinic rental	\$ 5,160	\$ 9,320
Cafeteria sales	37,134	43,167
Grants received	16,008	15,918
340B drug program	690,213	818,379
EHR incentives	172,313	
Other	<u>5,814</u>	<u>8,172</u>
	<u>\$ 926,642</u>	<u>\$ 894,956</u>

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

OPERATING EXPENSES

Year ended December 31,

	2017			2016
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
Nursing service	\$ 343,034	\$ 34,664	\$ 377,698	\$ 453,941
Intensive care	241,676	5,531	247,207	279,479
Swing-bed	4,520	20	4,540	12,094
Geriatric psych	920,809	326,038	1,246,847	1,246,613
Operating room	328,953	85,115	414,068	492,253
Orthopedic	550,491	49,361	599,852	635,763
Anesthesiology		358,008	358,008	385,293
Radiology	325,977	301,963	627,940	624,317
Laboratory	504,208	455,733	959,941	994,916
Respiratory therapy	65,365	9,932	75,297	137,137
Physical therapy	273,492	15,721	289,213	297,889
Occupational therapy	113,404	3,425	116,829	134,136
Speech therapy		13,318	13,318	12,642
Pulmonary Rehab	120,052	13,774	133,826	127,025
Central supply	72,296	592,730	665,026	779,732
Pharmacy	220,043	779,687	999,730	995,653
Emergency room	1,020,806	31,117	1,051,923	1,051,367
Home health	314,809	12,645	327,454	330,154
Physician clinics	2,192,045	532,955	2,725,000	2,780,838
Depreciation and amortization		1,462,646	1,462,646	1,458,868
Employee benefits		2,251,014	2,251,014	2,270,302
Administrative and general	1,058,315	829,646	1,887,961	1,898,462
Plant operation and maintenance	135,615	436,583	572,198	625,505
Laundry and linen		54,708	54,708	43,786
Housekeeping	172,652	78,176	250,828	259,311
Dietary	193,822	216,523	410,345	446,387
Nursing administration	134,144	1,576	135,720	140,230
Medical records	155,853	27,896	183,749	205,506
Community outreach	1,563	781	2,344	882
	<u>\$ 9,463,944</u>	<u>\$ 8,981,286</u>	<u>\$ 18,445,230</u>	<u>\$ 19,120,481</u>

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS
BALANCE IN DEPOSITORY COMPARED WITH DEPOSITORY SECURITY
December 31, 2017

	<u>First National Bank of Girard</u>	<u>Girard National Bank</u>	<u>Community National Bank</u>
Bank balances,			
December 31, 2017	\$ 2,942,004	\$ 1,374,486	\$ 206,817
Less F.D.I.C coverage	<u>250,000</u>	<u>250,000</u>	<u>206,817</u>
Balance in excess of			
F.D.I.C. coverage	<u>\$ 2,692,004</u>	<u>\$ 1,124,486</u>	<u>\$ -</u>
Market value of securities			
pledged	<u>\$ 3,016,887</u>	<u>\$ 1,481,706</u>	<u>\$ -</u>

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

SUMMARY OF INSURANCE COVERAGE

December 31, 2017

Federal Insurance Company

Policy No. 3585-70-69, expiring March 27, 2018

Property coverage

Buildings and contents, \$5,000 deductible	\$23,506,248
Blanket BPP, \$5,000 deductible	6,641,275
Business interruption	15,000,000
Computer malicious programming - inside attack	100,000
Computer malicious programming - outside attack	50,000

Cincinnati Insurance Company

Policy No. ENP 030 75 68, expiring March 27, 2018

Employee dishonesty-blanket, \$10,000 deductible	500,000
Computer fraud, \$2,500 deductible	200,000
Funds transfer fraud, \$2,500 deductible	200,000
Forgery, \$10,000 deductible	200,000

Kansas Medical Mutual Insurance Company

Policy No. HPL0015133, expiring March 27, 2018

Professional hospital liability	
Professional claims	200,000/600,000
Kansas Healthcare Stabilization Fund coverage	800,000/2,400,000
Additional insureds	1,000,000/3,000,000
General liability	
Personal injury and property damage liability	1,000,000/3,000,000
Employee benefits liability, \$1,000 deductible	250,000

Cincinnati Insurance Company

Policy No. EMH 0433716, expiring March 27, 2018

Directors' and officers' liability and trustee and fiduciary liability, \$5,000 deductible	1,000,000
Employment practices liability, \$10,000 deductible	1,000,000
Internet security, \$100,000 deductible	1,000,000

KHA Workers' Compensation Fund, Inc.

Certificate No. 83, expiring January 1, 2018

Workers compensation	
Per accident	500,000
Per employee disease	500,000
Policy limit employee disease	500,000

Cincinnati Insurance Company

Policy No. EBA0115804, expiring October 28, 2018

Automobile liability, each accident	1,000,000
Automobile uninsured motorist, each accident	1,000,000
Automobile underinsured motorist, each accident	1,000,000

HOSPITAL DISTRICT #1 OF CRAWFORD COUNTY, KANSAS

STATISTICAL DATA

(Unaudited)

Year ended December 31,

	<u>2017</u>	<u>2016</u>
Patient days		
Acute	822	1,020
Swing-bed	<u>466</u>	<u>388</u>
Total inpatient	<u>1,288</u>	<u>1,408</u>
Geriatric psych	<u>2,942</u>	<u>3,233</u>
Outpatient visits	<u>19,134</u>	<u>20,400</u>
Discharges		
Acute	258	307
Geriatric psych	226	202
Average length of stay		
Acute	3.2	3.3
Geriatric psych	13.0	16.0
Beds		
Acute	25	25
Geriatric psych	10	10
Occupancy percent inpatient	14.12%	15.43%
Occupancy percent geriatric psych	80.60%	88.58%